



Public Service Commission of Wisconsin

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Mark Meyer, Commissioner
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Public Service Commission of Wisconsin
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April 5, 2010 – SENT ELCTRONICALLY

Ms. Melanie Krause, Co-General Manager
Menasha Electric & Water Utilities
P.O. Box 340
Menasha, WI 54952-0340
E-mail: mkrause@wppienergy.org

Re: Application for a Water Rate Increase

3560-WR-106

Dear Ms. Krause:

Enclosed is a revised copy of the Public Service Commission staff's (staff) proposed 2010 test year Revenue Requirement Exhibit (exhibit) to be presented at the hearing for the Menasha Electric & Water Utilities (utility). As requested by the utility, a 6.00 percent rate of return has been used. Andrew Behm, Rate Analyst, will soon be performing a cost of service study and proposed rate design. A copy of that exhibit will be sent separately when completed. Therefore, please review the enclosed exhibit since it will be the basis for the cost of service study.

Enclosed as Schedule 5 is the list of depreciation rates that is the basis of staff's estimated depreciation expense for the test year. When the order is issued in docket 3560-WR-106 these rates will be certified for use by your utility effective January 1, 2010.

After reviewing, please confirm by Electronic Regulatory Filing (ERF) that the utility is in agreement with staff's revenue requirement proposal as set forth in the enclosed exhibit by April 12, 2010. If the utility is not in agreement with any individual component(s), please detail this in your reply.

If you have any questions regarding the above, please contact me at (608) 267-9817 or by e-mail at kathleen.butzlaff@wisconsin.gov. If you have any questions regarding the status of your rate case, please contact Andrew Behm at (608) 266-1282 or by e-mail at andrew.behm@wisconsin.gov.

Sincerely,

/s/ Kathleen Butzlaff

Kathleen Butzlaff
Audit Manager
Division of Water, Compliance and Consumer Affairs

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Enclosure

Exhibit No. _____

Docket No. 3560-WR-106

Witness: Kathleen Butzlaff

Menahsa Electric and Water Utilities

Estimated 2010 Water Operating Income Statement

Water Net Investment Rate Base

and 2010 Estimated Water Revenue Requirement

Public Service Commission of Wisconsin

Division of Water, Compliance, and Consumer Affairs

Menasha Electric and Water Utilities
3560-WR-106

Estimated Water Operating Income Statement
and Water Net Investment Rate Base
2010 Test Year

| | Utility | Adjustments | | Staff |
|--|--------------|-------------|------------|--------------|
| | Estimate | No. | Amount | Estimate |
| Total Operating Revenues: | \$4,291,702 | 1 | \$92,931 | \$4,384,633 |
| Operating Expenses: | | | | |
| Source of Supply | \$38,612 | | \$0 | \$38,612 |
| Pumping | 337,673 | 2 | (21,202) | 316,471 |
| Water Treatment | 1,156,494 | 3 | (20,000) | 1,136,494 |
| Transmission and Distribution | 382,754 | 4 | 33,075 | 415,829 |
| Customer Accounts | 95,392 | 5 | (720) | 94,672 |
| Sales | 81 | | 0 | 81 |
| Administrative and General | 630,274 | 6 | (25,293) | 604,981 |
| Total Operation & Maintenance Expenses | \$2,641,280 | | (\$34,140) | \$2,607,140 |
| Depreciation | 735,352 | 7 | 12,641 | 747,993 |
| Amortization | 3,051 | 8 | (3,051) | 0 |
| Taxes | 591,069 | | 0 | 591,069 |
| Total Operating Expenses | \$3,970,752 | | (\$24,550) | \$3,946,202 |
| Net Operating Income (Loss) | \$320,950 | | \$117,481 | \$438,431 |
| Net Investment Rate Base: | | | | |
| Utility Plant in Service | \$25,238,832 | | \$0 | \$25,238,832 |
| Less: | | | | |
| Accumulated Provision for Depreciation | 5,546,258 | | 0 | 5,546,258 |
| Net Plant in Service | \$19,692,574 | | \$0 | \$19,692,574 |
| Add: Materials and Supplies | 116,192 | | 0 | 116,192 |
| Less: Regulatory Liability - pre-2003 | | | | |
| Depreciation on Contributed Plant | 166,222 | | 0 | 166,222 |
| Net Investment Rate Base | \$19,642,544 | | \$0 | \$19,642,544 |
| Rate of Return | 1.63% | | | 2.23% |

Menasha Electric and Water Utilities
3560-WR-106

Estimated Water Operating Income Statement
Average Water Net Investment Rate Base and
water Revenue Requirement to Yield the Proposed Rate of Return
2010 Test Year

| | Staff Estimate | Increase Required | Proposed Rate Level |
|--|-------------------|----------------------|------------------------|
| Total Operating Revenues: | \$4,384,633 | \$740,122 | \$5,124,755 |
| Operating Expenses: | | | |
| Source of Supply | \$38,612 | | \$38,612 |
| Pumping | 316,471 | | 316,471 |
| Water Treatment | 1,136,494 | | 1,136,494 |
| Transmission and Distribution | 415,829 | | 415,829 |
| Customer Accounts | 94,672 | | 94,672 |
| Sales | 81 | | 81 |
| Administrative and General | 604,981 | | 604,981 |
| Total Operation & Maintenance Expenses | \$2,607,140 | | \$2,607,140 |
| Depreciation | 747,993 | | 747,993 |
| Amortization | 0 | | 0 |
| Taxes | 591,069 | | 591,069 |
| Total Operating Expenses | \$3,946,202 | | \$3,946,202 |
| Net Operating Income (Loss) | \$438,431 | | \$1,178,553 |
| Net Investment Rate Base: | | | |
| Utility Plant in Service | \$25,238,832 | | \$25,238,832 |
| Less: | | | |
| Accumulated Provision for Depreciation | 5,546,258 | | 5,546,258 |
| Net Plant in Service | \$19,692,574 | | \$19,692,574 |
| Add: Materials and Supplies | 116,192 | | 116,192 |
| Less: Regulatory Liability - pre-2003 | | | |
| Depreciation on Contributed Plant | 166,222 | | 166,222 |
| Net Investment Rate Base | \$19,642,544 | | \$19,642,544 |
| Rate of Return | 2.23% | | 6.00% |

Menasha Electric and Water Utilities
3560-WR-106

Estimated Water Operating Revenues
2010 Test Year

| | Utility Estimate | Adjustments | | Staff Estimate |
|--------------------------------------|---------------------|-------------|-----------------|--------------------|
| | | No. | Amount | |
| Unmetered Sales to General Customers | \$1,000 | | | \$1,000 |
| Metered Sales to General Customers: | | | | |
| Residential | \$1,425,649 | | \$0 | \$1,425,649 |
| Commercial | 253,872 | | 0 | 253,872 |
| Industrial | <u>1,048,876</u> | 1a | <u>(63,811)</u> | <u>985,065</u> |
| Total Metered Sales | \$2,728,397 | | (\$63,811) | \$2,664,586 |
| Private Fire Protection | 83,112 | | 0 | 83,112 |
| Public Fire Protection | 822,121 | | 0 | 822,121 |
| Sales to Public Authorities | 80,436 | | 0 | 80,436 |
| Sales for Resale | 488,233 | 1b | 156,742 | 644,975 |
| Interdepartmental | <u>0</u> | | <u>0</u> | <u>0</u> |
| Total Water Sales | \$4,203,299 | | \$92,931 | \$4,296,230 |
| Forfeited Discounts | 5,758 | | 0 | 5,758 |
| Misc. Service Revenues | 0 | | 0 | 0 |
| Rents of Water Property | 53,553 | | 0 | 53,553 |
| Interdepartmental Rents | 0 | | 0 | 0 |
| Other Water Revenues | <u>29,092</u> | | <u>0</u> | <u>29,092</u> |
| Total Operating Revenues | <u>\$4,291,702</u> | | <u>\$92,931</u> | <u>\$4,384,633</u> |

Menasha Electric and Water Utilities
3560-WR-106

Explanation of Staff Adjustments in Schedules 1 and 3

| Particulars | Amount |
|---|------------------------|
| <u>Adjustment No. 1</u> | |
| To adjust the utility's estimated operating revenues to the 2010 PSC estimate as follows: | \$92,931 |
| a. To decrease Industrial revenues based upon updated information for the largest users including the decreased usage trends and additional usage by three customers to make up for closing of the steam plant. | (\$63,811) |
| b. To increase Sales for Resale revenues based upon: | |
| - the utility estimated sales to the Town of Menasha of 191,200 mgal which is approximately the 2006 - 2009 average | |
| - revenues calculated using the current authorized rates. | <u>156,742</u> |
| Total Increase | <u><u>\$92,931</u></u> |
| <u>Adjustment No. 2</u> | |
| To decrease the utility's estimated Power Purchased for Pumping to the 2010 PSC estimate based on the 2010 estimated sales of water, a two year average ratio of sales to pumpage, the 2009 ratio of gallons pumped per kwh, and an estimated cost per kWh at the 2008 adjusted level. This estimate also is similar to the actual 2009 expense adjusted for the recent change in electric rates in 2010. | (\$21,202) |
| <u>Adjustment No. 3</u> | |
| To decrease the utility's estimated Chemicals Expense to the 2010 PSC estimate based on the utility's estimated pounds used and cost per pound in 2010, plus \$60,000 for the normalization of the \$300,000 to replace filter media every five years. | (\$20,000) |
| <u>Adjustment No. 4</u> | |
| To adjust the utility's estimated Transmission and Distribution Expenses to the 2010 PSC estimate as follows: | \$33,075 |
| a. To increase the utility's estimated Customer Installation Expense of \$26,133 to the 2010 PSC estimate of \$36,701 by added the annual cost of the cross connection control program the utility is starting in 2010. | \$10,568 |
| b. To increase the utility's estimated Maintenance of Reservoirs and Standpipes Expense to the 2010 PSC estimate of \$24,200 based upon: | |
| - estimated routine expenses of \$1,000 | |
| - the estimated cost to paint the two water towers normalized over twelve years. | <u>22,507</u> |
| Total Increase | <u><u>33,075</u></u> |

Menasha Electric and Water Utilities
3560-WR-106

Explanation of Staff Adjustments in Schedules 1 and 3

| Particulars | Amount |
|---|-------------------|
| <u>Adjustment No. 5</u> | |
| To decrease the utility's estimated Customer Records & Collection Expenses by excluding the estimated cost of processing credit card payments which is not allowed in customer rates. | (\$720) |
| <u>Adjustment No. 6</u> | |
| To adjust the utility's estimated Administrative and General Expense to the 2010 PSC as follows: | (\$25,293) |
| a. To decrease the utility's estimated Administrative and General Salaries to the 2010 PSC estimate of \$88,356 by excluding the three percent raise estimated by the utility for non-represented employees. | (\$2,651) |
| b. To decrease the utility's estimated Outside Service Expenses to the PSC 2010 estimate of \$20,975 by using a three year average for bargaining/union fees, a four year inflated average for miscellaneous consulting and normalizing the Debt Restructuring cost over two years. | (11,505) |
| c. To decrease the utility's estimated Regulatory Commission Expenses to the 2010 PSC estimate of \$2,800 by normalizing the utility's estimated rate case costs of \$8,400 over three years. | (5,200) |
| d. To decrease the utility's estimated Miscellaneous General Expenses to the 2010 PSC estimate of \$17,502 by using a three year average for labor, a four year average for membership dues, and excluding scholarships which are not allowed customer rates. | <u>(5,937)</u> |
| Total Decrease | <u>(\$25,293)</u> |
| <u>Adjustment No. 7</u> | |
| To increase the utility's estimated Depreciation Expense to the 2010 PSC estimate based upon the items noted below. | \$12,641 |
| - estimated Utility Financed Plant in Service balances for the test year | |
| - proposed depreciation rates per Schedule 5 | |
| - an allocation of a portion of depreciation on meters to the sewer department | |
| - an allocation of a portion of depreciation on customer service equipment equipment to the water utility and sewer department | |
| - allocations to clearing accounts. | |
| <u>Adjustment No. 8</u> | |
| To decrease the utility's estimated Amortization Expense by reclassifying the amortization of debt discount expense to Account 428. | (\$3,051) |

Menasha Electric and Water Utility
Schedule of Water Depreciation Rates
Docket 3560-WR-106
Effective January 1, 2010

Schedule 5

| <u>Account Number</u> | <u>Class of Plant</u> | <u>Deprec. Rate</u> |
|---------------------------|---|-------------------------|
| | SOURCE OF SUPPLY PLANT | |
| 312 | Collecting and Impounding Reservoirs | 1.7% |
| 313 | Lake, River and Other Intakes | 1.7% |
| 316 | Supply Mains | 1.8% |
| | PUMPING PLANT | |
| 321 | Structures and Improvements | 3.5% |
| 323 | Other Power Production Equipment | 4.4% |
| 325 | Electric Pumping Equipment | 5.5% |
| 326 | Diesel Pumping Equipment | 4.4% |
| | WATER TREATMENT PLANT | |
| 331 | Structures and Improvements | 3.2% |
| 332 | Sand and Other Media Filtration Equipment | 3.3% |
| | TRANSMISSION AND DISTRIBUTION PLANT | |
| 341 | Structures and Improvements | 3.2% |
| 342 | Distribution Reservoirs and Standpipes | 1.9% |
| 343 | Transmission and Distribution Mains | 1.3% |
| 345 | Services | 2.9% |
| 346 | Meters | 5.5% |
| 348 | Hydrants | 2.2% |
| | GENERAL PLANT | |
| 391 | Office Furniture and Equipment | 5.8% |
| 391.1 | Computer Equipment | 25.0% |
| 392 | Transportation Equipment | Unit |
| 394 | Tools, Shop and Garage Equipment | 5.8% |
| 395 | Laboratory Equipment | 5.8% |
| 396 | Power Operated Equipment | Unit |
| 397 | Communication Equipment | 10.0% |
| 397.1 | SCADA Equipment | 10.0% |